

**REPORT OF
FINANCIAL EXAMINATION**

**PATRONS & FARMERS MUTUAL FIRE
INSURANCE COMPANY OF
CASS COUNTY**

**AS OF
DECEMBER 31, 2003**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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September 16, 2004
Harrisonville, Missouri

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

PATRONS & FARMERS MUTUAL FIRE INSURANCE COMPANY OF CASS COUNTY
hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 1003 West Mechanic (P.O. Box 236), Harrisonville, Missouri, telephone number (816) 380-4241. This examination began on September 16, 2004, and was concluded on September 16, 2004, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1998, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 1999, through December 31, 2003, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and

applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 1998, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Conflict of Interest

Comment: The Company was directed to institute a conflict of interest procedure. The procedure should provide for a yearly review of conflict of interest statements signed by the directors and officers of the Company.

Company Response: The Company has implemented a conflict of interest procedure.

Current Findings: The Company requires its directors to sign conflict on interest statements on an annual basis.

Corporate Records

Comment: It was recommended the Company complete its policy and procedures manual to include a conflict of interest procedure.

Company Response: The Company will complete its policy and procedure manual.

Current Findings: The Company has a policy and procedure manual that adequately addresses the business of the Company.

Employee Benefits

Comment: It was recommended the Company accrue a liability in its financial statements for its benefit obligations.

Company Response: The Company will accrue a liability in its financial statements for its employee obligations.

Current Findings: The Company makes adequate provisions for employee benefits in its financial statements.

Territory and Plan of Operation

Comment: It was recommended the agent contracts be amended limiting the amount of time an agent has to submit and application and/or inspection form to the Company and requiring that all forms must be completed in full. The agent contracts should also reflect the current commission rates.

Company Response: The Company has made the recommended amendments to the agent contracts.

Current Findings: The agent agreements have been amended to contain provisions for the timely delivery of fully completed applications to the home office and commission schedules.

HISTORY

General

Patrons and Farmers Mutual Fire Insurance Company of Cass County was originally organized in 1877, and was incorporated on January 30, 1896. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Wednesday in April, at the home office of the Company or at such other place as may be designated by the Board of Directors. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and each member receives monthly compensation of \$225.

Members serving on the Board of Directors as of December 31, 2003, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Ronald J. Dean 11712 East 246 th Street Peculiar, Missouri	Insurance Agent	2001-2004
Victor A. Shipley 111 East Main Street, Box 128 Drexel, Missouri	Insurance/Real Estate Agent	2001-2004
Jesse T. Dean 508 Mott Drive, Apt 208B Raymore, Missouri	Retired	2003-2006
Larry W. Duncan 28414 South Grand River Road Freeman, Missouri	Insurance Agent/Farmer	2002-2005
Everett L. Helms P.O. Box 558 Garden City, Missouri	Insurance Agent/Farmer	2002-2005
Phillip K. Kelley 31301 South Lone Tree Road Harrisonville, Missouri	Insurance Agent/Farmer	2003-2006
Gerald E. Land, Jr. 102 South Highway 7 Pleasant Hill, Missouri	Insurance/Real Estate Agent	2002-2005
Michael N. Kohler 28611 East State Route 2 Harrisonville, Missouri	Insurance Agent/Farmer	2003-2006
John T. Southard 2765 Cantrell Road Harrisonville, Missouri	Insurance Agent	2001-2004

The Board of Directors elects for a term of one year a President, Vice-President and Secretary, who may also serve as Treasurer when so designated by the Board. The monthly compensation for officers is \$300 for the President, \$50 for the Vice-President, \$250 for the Secretary and \$150 for the Treasurer.

The officers of the Company serving at December 31, 2003, were as follows:

Ronald J. Dean
Gerald E. Land, Jr.
Betty Grable
Larry W. Duncan

President
Vice-President
Secretary
Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation and Bylaws were not amended during the examination period.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$75,000 and \$100,000 in coverage.

The Company carries directors' and officers' liability coverage with an annual aggregate limit of \$2,000,000 and a \$2,500 per loss deductible.

The Company requires its agents to purchase a minimum of \$500,000 in errors and omissions insurance coverage at their own expense.

The Company has a businessowner's policy providing coverage of \$171,000 on the home office building and \$40,000 on office contents. The policy also includes liability coverage with a per occurrence limit

of \$500,000 and an aggregate limit of \$1,000,000.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has four full-time employees and one part-time employee. The full-time employees receive paid vacation and sick leave and a monthly allowance in lieu of health insurance. The Company also purchases workers compensation and employers liability insurance for the benefit of its employees. It appears the Company has made adequate provisions in its financial statements for the employee benefit obligations.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by nine licensed agents and agencies, who receive a 6% commission on commercial liability and inland marine policies marketed through the Company under a cooperative agreement with its reinsurer and a 17.5% commission on all other policies.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. An independent inspector/adjuster performs inspections and adjusting services on large claims. Agents perform adjusting services on small claims.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	Admitted Assets	Liabilities	Gross Assessment	Gross Losses	Investment Income	Underwriting Income	Net Income
2003	\$3,039,324	\$1,251,898	\$1,582,165	\$1,098,427	\$101,839	\$(276,988)	\$(115,903)
2002	2,612,278	631,477	1,422,926	922,464	110,277	(112,639)	3,029
2001	2,454,713	535,889	1,240,228	162,038	110,510	43,906	97,518
2000	2,325,728	525,863	1,208,752	644,455	113,685	(174,524)	(29,962)
1999	2,320,406	490,580	1,184,391	304,750	111,366	(105,573)	31,975

At year-end 2003, 3,087 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	1999	2000	2001	2002	2003
Direct	\$1,184,391	\$1,208,752	\$1,240,228	\$1,422,926	\$1,582,165
Assumed	0	0	0	0	0
Ceded	(569,452)	(610,833)	(585,451)	(722,399)	(452,722)
Net	\$614,939	\$597,919	\$654,777	\$700,527	\$1,129,443

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance contract for fire, wind and liability risks. The per risk excess of loss section of the contract pertains to fire and wind risks and has two layers. The Company retains \$50,000 per risk under the first layer and \$150,000 per risk under the second layer. The reinsurer's limits

are \$100,000 per risk under the first layer. Under the second layer, the reinsurer's limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. The per occurrence limit regarding both layers is \$700,000. The reinsurance rate is 9.5% and 2.0% of net written premium for layers one and two, respectively.

The catastrophe excess of loss section of the contract also has two layers. The Company retains \$450,000 per occurrence under the first layer and \$1,450,000 per occurrence under the second layer, and the reinsurer is responsible for 95% of losses in excess of the retention. The per occurrence limit is \$950,000 under the first layer and \$9,000,000 under the second layer. The annual limit is \$1,900,000 under the first layer and \$18,000,000 under the second layer. Annual premium for the catastrophe coverage is \$.0688 per \$1,000 in force for layer one and \$.2130 per \$1,000 in force for layer two.

The contract also provides for aggregate excess of loss coverage. The reinsurer is liable for 95% of losses in excess of 75% of the Company's net written premium, with a maximum limit of \$2,000,000. The reinsurance rate is 2.5% of net written premium.

The contract has a liability quota share section for farm, personal and homeowners liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% ceding commission.

The Company has a cooperative agreement with Cameron Country Mutual Insurance Company for commercial liability and inland marine lines of business. The Company receives a 12% commission for premiums written under the agreement.

The Company participates in a contingent profit commission agreement as a part of the reinsurance contracts. The commission is based on the number of years the Company has been party to the reinsurance contract and the five-year loss ratio of the Company. The contingent profit commission range is from 0% to 8% of written premium ceded under the contract.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability

would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Company's accounting firm, Daniel, Schell, Wolfe and Associates, P.C., CPAs, performs an annual audit of the Company's financial statements and prepares the Company's Annual Statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2003

Bonds	\$ 756,389
Real Estate	95,140
Cash on Deposit	1,845,048
Reinsurance Recoverable	252,832
Computer Equipment	6,145
Federal Income Tax Recoverable	51,247
Interest Due and Accrued	27,423
Asset Write-Ins	5,100
	<hr/>
Total Assets	<u><u>\$ 3,039,324</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2003

Losses Unpaid	\$ 340,563
Ceded Reinsurance Payable	44,095
Unearned Premium	850,644
Liability Write-Ins	16,596
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Total Liabilities	\$ 1,251,898
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Guaranty Fund	\$ 150,000
Other Surplus	1,637,426
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Total Surplus	\$ 1,787,426
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Total Liabilities and Surplus	<u><u>\$ 3,039,324</u></u>

STATEMENT OF INCOME
December 31, 2003

Net Premium	\$ 1,129,443
Net Losses Incurred	(812,391)
Other Underwriting Expenses	(594,040)

Net Underwriting Income (Loss)	\$ (276,988)

Investment Income	\$ 101,839
Other Income	59,246

Gross Income (Loss)	\$ (115,905)
Federal Income Tax	0

Net Income (Loss)	\$ (115,905)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2003

Policyholders' Surplus, December 31, 2002	\$ 1,900,411
Net Income (Loss)	(115,905)
Adjustment for Admitted/Non-Admitted Assets	2,920

Policyholders' Surplus, December 31, 2003	\$ 1,787,426
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NOTES TO THE FINANCIAL STATEMENTS

There were no examination changes.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

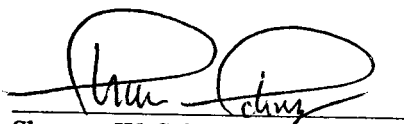
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Patrons & Farmers Mutual Fire Insurance Company of Cass County during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 10th day of November, 2004.

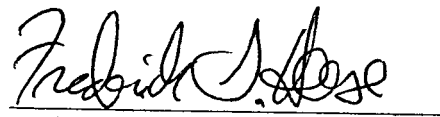
My commission expires:

Oct. 7, 2005
RAYNA S. RICE
Notary Public - State of Missouri
County of Cole
My Commission Expires Oct. 7, 2005


Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Frederick G. Heese, CFE, CPA
Audit Manager - Kansas City
Missouri Department of Insurance